

THE SANITARY SEWER SYSTEM

The Water Services Department is responsible for the planning and construction of sewers, pump stations, and treatment facilities serving Kansas City and certain surrounding areas. It is also responsible for the operation and maintenance of all of the wastewater collection and treatment facilities, compliance with the City's wastewater discharge permits, as well as applicable state and federal environmental regulations, and the administration of an industrial waste program to regulate the quality of wastewater discharged from certain industrial activities.

The Kansas City sanitary sewer system serves an area of about 350 square miles. Wastewater collection and treatment services are provided to approximately 148,000 customers inside and outside the City on a retail basis and to 28 surrounding communities and sewage districts on a contractual basis. The Water Services Department currently maintains about 2,000 miles of sanitary sewers and about 600 miles of combined sewers, 40 wastewater pumping stations, 18 flood pumping stations, and 7 wastewater treatment plants. The combined sewers transport both sanitary flows and, during rainfall events, stormwater flows. The combined sewers serve an area south of the Missouri River of about 56 square miles. All wastewater transported to the City's treatment plants receives secondary treatment in compliance with federal and state environmental regulations. One minor wastewater treatment plant is currently scheduled to be removed from service upon completion of ongoing wastewater collection system improvements that will transport its wastewater to other wastewater treatment facilities. This minor plant currently serves the Northland Mobile Home Park. A summary of the City's wastewater treatment plants is presented in the table below

Existing Wastewater Treatment Facilities

	Approximate First Year of Operation	Current Design Capacity (mgd)	Average Flow (mgd) (a)
Treatment Facility			
Blue River (b)	1964/1985	105.0	81.2
Westside (c)	1977	22.5	17.8
Birmingham (c)	1977	20.0	14.2
Todd Creek (c)	1999	3.4	1.7
Fishing River (c)	2000	1.0	1.0
Rocky Branch(c)(d)	2005	2.0	1.5
Northland Mobile(c)	-	<u>0.1</u>	<u>0.1</u>
TOTAL		154.0	117.5

mgd - million gallons per day

(a) Average flow for fiscal year 2009

(b) Secondary treatment provided by trickling filters.

(c) These facilities provide secondary treatment using an activated sludge treatment process.

(d) Capacity at the Rocky Branch Wastewater Treatment Plant was upgraded in 2005. Secondary treatment at this plant is provided by an activated sludge process.

The following table shows revenues generated by retail and wholesale customers of the Sanitary Sewer System for the past five years.

Sanitary Sewer Revenues by Retail and Wholesale Customers

Revenue (\$)	2005	2006	2007	2008	2009
Wastewater Volume Revenues	\$52,746,915	\$56,637,858	\$60,782,089	\$64,848,775	\$69,850,066
Other Operating Revenue	3,115,232	2,513,561	3,393,160	3,613,322	4,752,796
Interest Income	<u>941,394</u>	<u>2,288,165</u>	<u>1,849,669</u>	<u>2,779,229</u>	<u>1,418,735</u>
Total Revenue	<u>\$56,803,541</u>	<u>\$61,439,584</u>	<u>\$66,024,918</u>	<u>\$71,241,326</u>	<u>\$76,021,337</u>

The following table shows the number of retail Sanitary Sewer System customers for the past five years.

Number of Retail Sanitary Sewer Customers

	<u>FY 2005*</u>	<u>FY 2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>
Residential	130,814	131,210	131,444	133,308	136,470
Commercial/Industrial	15,142	15,205	14,760	15,076	15,179
Wholesale**	<u>153</u>	<u>146</u>	<u>138</u>	<u>138</u>	<u>21</u>
Total	146,109	146,561	146,342	148,522	151,670

**Restated from prior year*

Because of the system conversion from Legacy to Banner in April 2004, the FY2005 numbers were calculated based on previous projections because of data clean-up from the old system that needed verification. FY2005 and FY2006 track each other and are reasonably in line from year to year. The customer numbers in the old legacy system had to be calculated based on the number of bills issued and was not as accurate as the new system.

***In FY2005, 2006, 2007 and FY2008 customer counts were based on service connections. FY2009 is based on discreet wholesale customer contracts.*

Management Initiatives

The Water Services Department continues its efforts to improve operating efficiencies, customer services, and service reliability. The Department will require significant capital additions to the sanitary sewer system to meet infrastructure renewal and replacement needs. That consideration is one of several that caused the Department to begin developing an Asset Management Program (the “Program”). Beginning with the sewer utility, the Program will establish levels of service, best management practices, and an implementation plan that is aimed at minimizing the life cycle costs of the Department’s assets. The Program will ultimately be expanded to include the water utility.

In response to community expectations, the Department initiated a reengineering effort to match its organizational structure and functions with changing business needs. Specifically, strategies are being developed to address succession planning, organizational structure and function, and internal delivery of capital projects. These initiatives are aimed at helping the Department achieve best of class delivery of essential services.

Security of the System

The City continues to evaluate and address Sanitary Sewer System security matters in accordance with requirements of the U.S. Environmental Protection Agency and other applicable federal regulations and continues to seek federal funding that may become available to defray the cost of any additional security needs.

Capital Improvement Program

As stated above, the City’s Water Services Department has developed the CIP, which is intended to maintain and expand the Sanitary Sewer System’s capability of collecting and treating wastewater in a manner that meets or exceeds existing and anticipated federal and state water quality standards. The City expects that three bond issues totaling \$140,000,000 will be sold during the fiscal years ending 2011 through 2013 to help finance the CIP. The near-term CIP anticipates improvements at various wastewater treatment plants that are expected to cost approximately \$100,000,000 and improvements in the collection system for an estimated \$40,000,000.

Overflow Control Plan

The City Council directed the City Manager in 2003 to prepare a long range plan to manage wet weather flow in both the separate and combined sewers within Kansas City. In response, the City Water Services Department prepared an Overflow Control Plan (the “Plan”). On January 30, 2009, the City of Kansas City Missouri submitted the Plan to control overflows from the City’s combined and separate sanitary sewer system, as scheduled, to the Missouri Department of Natural Resources (“MDNR”) and the United States Environmental Protection Agency (“EPA”). The Plan is being driven by requirements of the Clean Water Act (defined below) and by EPA regulations and policies. The Plan details the City’s commitment to decrease the frequency and volume of overflows from its

combined and separate sanitary sewer systems. The Plan is the largest infrastructure investment in Kansas City's history with an estimated cost of \$2.4 billion (2008 dollars) and will take around 25 years to complete.

The plan is subject to EPA agreement, which is expected to take between six months and one year to obtain. Further, the cost stated above is an estimation based upon the current Plan and any changes required by MDNR and EPA could result in significant cost increases. Moreover, the estimated time of implementation is based upon current Plan proposals and is subject to EPA agreement. As of October 27, 2009, the maximum amount of time granted by the EPA for implementation of similar plans is 20 years. After receiving EPA agreement to the Plan, a financing plan will be prepared and implemented.

The City is proceeding with certain projects included in the Plan, including \$82.9 million of the projects financed with the Bonds. Failure to resolve the overflows in accordance with EPA's requirements could result in an enforcement action against the City by the EPA, the MDNR or any individual citizen.

The current estimated capital cost, prior to review and comment by the EPA of the proposed Plan is \$2.4 billion in 2008 dollars. However, the wastewater utility's current capital improvements program includes an additional \$0.5 billion in other regulatory needs that must also be considered when finalizing funding and an implementation schedule for the Plan. In addition, once implementation begins, there will be a substantial increase in annual expenditures for operation and maintenance. It is anticipated that the Plan will be funded primarily from the City's sewer fund. The City does not anticipate that the City's general fund will be relied upon to assist in the financing of the Plan, however further future analysis will be required. Specifically, upon approval and implementation of the Plan, specific financing strategies to offset the cost of the Plan will be evaluated and implemented, which financing plans may include diversion of moneys from the City's general fund.

The Plan is structured to prevent as much stormwater as practicable from entering the combined sewer system and separate sewer system, while reducing sewer overflows, and to provide a platform to facilitate implementation of a comprehensive green solutions initiative in the City. The Plan for the combined sewer system will capture for treatment, approximately 88% of the existing flows in the combined sewer system during a typical year, reduce typical year CSO volume, and reduce inflows into the combined sewer system. It will provide adequate capacity to store, transport and treat wastewater in the separate sewer system during a five year, 24-hour rainfall event and reduce the frequency and severity of basement backups throughout the City.

The City is currently in negotiations with federal and state regulators concerning an enforceable mechanism whereby the Plan will be implemented. EPA and MDNR are suggesting that a consent decree be used and the City has entered into good faith negotiations for a consent decree. Consent decrees addressing overflow issues are currently in place for many large cities and sewer districts. If a consent decree cannot be negotiated, an enforcement action could result against the City, to be initiated by EPA, MDNR, or any individual citizen. The Plan can be found at http://www.kcmo.org/idc/groups/water/documents/ckcmowebassets/plan_full.pdf.

Regulatory Requirements

General

The City's Sanitary Sewer System operations are subject to regulatory requirements relating to the Federal Water Pollution Control Act as amended (the "Clean Water Act") and the Federal Air Pollution Prevention and Control Act, as amended (the "Clean Air Act"). The regulatory requirements are administered by the EPA through MDNR. Regulations of these agencies deal with the nature of wastewater (particularly from commercial and industrial facilities) discharged into the collection system, management of overflows from the combined (sanitary/storm) sewer system, the quality of effluent discharged from the wastewater treatment facilities into receiving streams, the quality of air emissions, and the use or disposal of residual solids generated by the wastewater treatment plants. As a condition of having received federal EPA grant funds under the Clean Water Act for planning, design, and construction of various wastewater projects, the City is subject to additional requirements. Among the grant-related requirements are guidelines that must be followed concerning planning methodologies, design criteria, procurement, construction activities, and financing of facilities.

To comply with federally mandated effluent quality and disposal criteria, the City must operate its wastewater treatment facilities according to discharge limitations and reporting requirements set forth in National Pollutant

Discharge Elimination System (“NPDES”) discharge permits. With the possible exception stated below of the Westside Wastewater Treatment Plant, all wastewater treatment plants are meeting the requirements of their individual NPDES permits, as October 27, 2009.

An operational issue arose in January, 2009, concerning a clarifier at the Westside Wastewater Treatment Plant. The City is pursuing an interim measure that will ensure that this plant will meet its permit requirements. The City is also pursuing its remedies against the design professional and the contractor who performed the rehabilitation work on the clarifier. The City does not expect that this issue will have any significant financial impact on the City’s ability to pay debt service on the Bonds.

To comply with other federal regulations concerning the discharge of waste materials into the combined and sanitary sewer systems, the City must administer and enforce industrial pretreatment standards upon users of the system. The City has been approved by the State and the EPA to administer its own industrial pretreatment program. In addition, any other jurisdiction contributing wastewater to the City’s wastewater collection and treatment system is required by an inter-jurisdictional agreement to either (i) permit and monitor all industries within its respective service area, or (ii) allow the City to do so.

In addition to the City’s compliance with all applicable federal laws and regulations, the City must comply with all applicable State laws and regulations. The primary State laws concerned with the control of wastewater operations are the Missouri Clean Water Law, Chapter 644, RSMo, and corresponding regulations, and the Missouri Air Conservation Law, Chapter 643, RSMo, along with corresponding regulations.

Evolving Regulations

The current estimated capital cost of this control plan is \$2.4 billion (2008 dollars) over twenty-five years. In addition, once implementation begins, there will be a substantial increase in annual expenditures for operation and maintenance. It is anticipated that this Plan will be funded primarily from the City’s sewer fund. At this stage of the process the City does not anticipate that the general fund of the City will be relied upon to assist in the financing of the Plan.

As stated earlier, the City submitted its Plan to control sewer overflows to EPA and MDNR for their review and comment. While the City expects the Plan, in its current form, to comply with current EPA and MDNR regulations, it is possible that changes in administration officials and policies, due to the change in federal and state administrations or other factors could result in additional, more stringent standards, which result in additional improvements and expenses in order for the Plan to comply with changing EPA and MDNR standards.

In addition to the \$2.4 billion (2008 dollars) expected to be spent to fund the Plan, the City expects to spend an additional \$0.5 billion (2008 dollars) to comply with new state regulations, such as disinfection. It is anticipated that this expenditure will be coordinated with implementation of the Plan, resulting in an overall implementation time frame of around 30 years. The City is on schedule to comply with these new regulations.

Legal

On behalf of the City, the Water Services Department entered into a cooperative agreement with the City of Lee’s Summit, Missouri (“Lee’s Summit”), whereby the City would construct the East Bannister Road Interceptor by February 19, 2008. Subsequent to February 19, 2008, Lee’s Summit could terminate 138 temporary residential City connections to its Boggs Hollow Interceptor. As of October 27, 2009, the East Bannister Road Interceptor has not yet been constructed. Despite Lee’s Summit’s ability to disconnect, the disconnections can only occur after: (i) Lee’s Summit provides the City with a 135 day written notice to disconnect; (ii) a third party has applied to Lee’s Summit for development approval in the Boggs Hollow watershed; and (iii) the Lee’s Summit governing body determines that said development will require capacity in the Boggs Hollow Interceptor which is not available due to consumption by the City. As of October 27, 2009, the City has not received notice from Lee’s Summit to disconnect from the Boggs Hollow Interceptor, and to the best of the City’s knowledge there are no approved developments in Lee’s Summit that would require capacity from the Boggs Hollow Interceptor, which is unavailable due to City consumption.

Largest Users of the System

The following table sets forth the ten largest users of the City's Sanitary Sewer System and the percentage of total sewerage charges for service applicable to each for Fiscal Year 2009:

<u>User</u>	<u>Percentage of Total Wastewater Services Charges</u>
Johnson County, Kansas	13.23%
Liberty, Missouri	3.81
Gladstone, Missouri	3.23
North Kansas City, Missouri	2.28
Raytown, Missouri	0.99
Ford Motor Company	0.96
Trigen	0.93
Independence, Missouri	0.65
Riverside, Missouri	0.60
Pleasant Valley, Missouri	0.44

Approximately seventy percent of the sewer service charge revenues of the Water Services Department are derived from charges for retail service provided to customers located inside the city limits. Additionally five percent of the sewer service charge is billed directly by the Water Services Department on a retail basis outside of the City limits. The remaining sewer service charge revenues are for collection, transport, and treatment services provided on a wholesale basis under inter-jurisdictional agreements with 22 surrounding cities and sewer districts. The rates charged to each of the wholesale customer are based on a flat rate house count, commercial customer count with water usage, or metered sewer flow. The rates for each agreement are established in the City's sewer rate ordinance. These rates are reviewed annually but can be changed by City Council at any time.

Billing Procedures and Collections

Wastewater rates are reviewed annually by the City to determine if rate adjustments are required. Charges are based on the estimated volume of wastewater discharged into the sanitary sewer system or by actual measurement for certain inter-jurisdictional customers. Billable wastewater volume charges for one and two family dwellings are based on water used during the winter period, which is defined as the billing periods most closely corresponding to the months of January through April. Billed wastewater volume for all other customers is equal to their actual metered water usage less any approved exemption allowances for water that does not enter the sanitary sewer system. In addition, all customers pay a monthly or bimonthly service charge. Commercial and industrial users that discharge wastewater having a high biochemical oxygen demand, high concentrations of suspended solids, or oil and grease pay additional charges to recover the added costs required to treat their wastewater.

Charges for wastewater collection and treatment services are combined on a single bill with applicable water and stormwater charges. A late payment service charge of 5% of the unpaid delinquent balance is applied to all metered water service, sanitary sewer service and stormwater fee bills remaining unpaid after the delinquent date. Water and wastewater services are subject to termination without further notice if a bill remains unpaid 20 days after the delinquent date. For one and two family dwellings, unpaid charges become a lien on the property if the account is six or more months delinquent, or the total amount of the delinquency is \$500 or more. For all other property classifications, unpaid charges become a lien on the property if the account is three or more months delinquent, or the total amount of the delinquency is \$1,000 or more. Water and wastewater service can be restored upon payment of the unpaid bills and a service restoration charge.

Rate Structure

In 1972, the City adopted a policy of annually reviewing the adequacy of its wastewater rates and adjusting them as required. Wastewater rates are developed for retail and inter-jurisdictional contract customers by determining the total costs of service and service requirements. Rate increases over the past five years have occurred each May 1 and range from 6% to 12%. On March 26, 2009 the City Council approved Ordinance No. 090222 which established the following wastewater rates effective May 1, 2009:

Inside City Rates

Monthly Service Charge	\$8.60 per bill
Bimonthly Service Charge	\$11.90 per bill
Volume Charge	\$2.28 per hundred cubic feet
Excess Strength Surcharges	
Biochemical Oxygen Demand Over 250 mg/l	\$0.225 per pound
Suspended Solids Over 250 mg/l	\$0.137 per pound
Oil & Grease Over 30 mg/l	\$0.099 per pound

Outside City Rates

Metered Wastewater Connections	
Volume Charge	\$1.55 per hundred cubic feet
Unmetered Connections with Water Records	
Monthly Service Charge	\$8.60 per bill
Bimonthly Service Charge	\$11.40 per bill
Volume Charge	\$2.14 per hundred cubic feet
Unmetered Connections without Water Records	
Monthly Service Charge	\$21.90
Individual Customers Billed Directly by the City	
Monthly Service Charge	\$10.50 per bill
Bimonthly Service Charge	\$17.00 per bill
Volume Charge	\$2.51 per hundred cubic feet
Excess Strength Surcharges	
Biochemical Oxygen Demand Over 250 mg/l	\$0.255 per pound
Suspended Solids Over 250 mg/l	\$0.156 per pound
Oil & Grease Over 30 mg/l	\$0.101 per pound

Rate increases require City Council approval and the City is not required to raise rates annually. The City makes no representation as to whether either (i) whether a rate increase will be approved in any of said future Fiscal Years, or, (ii) if a rate increase is approved in any Fiscal Year, as to the nature and extent of any such rate increase or changes in customer base and resulting revenues. Nevertheless, the City's debt service coverage requirement will be maintained.

Stormwater charges are based on the impervious area of each property within the City. The stormwater revenues are not available to pay debt service on the Bonds or any other Parity Bonds. However, stormwater revenues could be used, if required, to pay debt service on the Outstanding Senior Bonds.

The following table lists the percentage of delinquent sewer charges for the years indicated:

<u>Fiscal Year</u> <u>Ended April 30</u>	<u>Delinquency</u> <u>Percentage</u>
2009	2.23%
2008	2.06%
2007	3.03%
2006	2.96%
2005	2.24%

Sanitary Sewer System Financial Information and Coverage Statement

Operating Revenues and Expenses

Approximately 71% of the sewer service charge revenues of the Water Services Department are derived from charges for retail service provided to customers located either inside or outside the city limits. The remaining sewer service charge revenues are for collection, transport, and treatment services provided on a wholesale basis under inter-jurisdictional agreements with 22 surrounding cities and sewer districts. The total number of retail customers in Fiscal Year 2009 is approximately 151,500.

Annual operation and maintenance expenses of the Wastewater System are shown the “Debt Service Coverage” Table. These expenses consist of sewerage treatment and pumping, sewer maintenance, administrative and general, hazardous waste control, and AMR lease payments. The wastewater utility’s total operation and maintenance expenses for the historical period were \$34,612,136 in 2005, \$39,118,387 in 2006, \$40,422,112 in 2007, \$46,565,369 in 2008 and \$52,231,885 in 2009.

In April 2008, the Water Services Department developed a Statement of Policy for Operating and Renewal and Replacement Reserves (Reserve Policy), which was reviewed by the City Council and was adopted on August 14, 2008. The Reserve Policy establishes target reserve levels for operating and renewal and replacement reserves, establishes annual contribution levels, and provides for the annual review and modification of the reserve targets and funding requirements. Reserve targets established for the Sewer System are as follows:

- (a) Operating reserves have been established in an amount equal to 20 percent of budgeted annual operating and maintenance expenses, plus budgeted administrative fees; and
- (b) A renewal and replacement reserve has been established in an amount equal to the prior year’s annual depreciation. Minimum annual contributions of \$1,000,000 shall be budgeted and transferred until the required amount is established. Once the required funding level is met, annual contributions may be adjusted to amounts consistent with growth in annual depreciation. To the extent that balances are drawn down and used to fund emergency capital replacements or for other authorized purposes, annual contributions shall resume until the required funding level is met.

Accounting, Budgeting and Auditing Procedures

The Water Services Department is an enterprise activity whose financial records are audited annually and reported in conformity with generally accepted accounting principles for governmentally-owned wastewater utilities. The Department operates the Sanitary Sewer System on the accrual basis system of accounting, where revenues are recorded when earned and expenses are recorded when incurred.

An annual budget of estimated receipts and disbursements for the coming Fiscal Year is prepared by the Director of Water Services under the direction of the City Manager and is presented to the City Council in March for approval after a public hearing. The Fiscal Year of the Sanitary Sewer System is May 1 through April 30. The budget lists estimated receipts by funds and sources and estimated disbursements by funds and purposes and includes a statement of the rates required to raise each amount shown on the budget as coming from Sanitary Sewer System revenues.

The financial records of the Sanitary Sewer System are audited annually by a firm of independent certified public accountants in accordance with generally accepted auditing standards. For the years 2005-2008, the annual audit was performed by KPMG, LLP, Kansas City, Missouri. In 2009 BKD, LLP certified public accountants audited the City as a whole and did not give a separate opinion for Sewer's financial records. Copies of the audit reports of the past five years are on file in the City Clerk's office and are available for review.

Financial Statements

The City maintains its financial records on the basis of a Fiscal Year ending April 30. Such financial statements have been examined by BKD, LLP, Kansas City, Missouri, independent certified public accountants. The City did not ask BKD, LLP, to perform any additional work or any post-audit procedures more recently than the April 30, 2009 audit with respect thereto.

The tables on the following pages provide the Sewer Fund's balance sheets and income statements for the Fiscal Years ended April 30, 2005 through 2009.

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CITY OF KANSAS CITY, MISSOURI
SEWER FUND – WASTEWATER ONLY
Statements of Net Assets
Audited For Fiscal Years Ending April 30, 2005-2009

Assets	2005	2006	2007	2008	2009
Current assets:					
Cash and short-term investments	\$10,510,955	\$10,850,229	\$13,158,121	\$11,085,415	\$12,037,964
Accounts receivable, net	11,327,637	10,668,796	11,236,445	12,939,765	13,606,392
Accrued interest receivable	17,302	53,258	19,350	125,357	75,086
Inventories	439,562	398,710	425,792	594,096	521,705
Prepaid expenses	199,366	204,636	259,487	326,629	327,166
Due from other governments	0	0	0	0	0
Due from other funds	486,575	1,301,402	517,876	313,224	390,129
Total unrestricted current assets	<u>22,981,397</u>	<u>23,477,031</u>	<u>25,617,071</u>	<u>25,384,486</u>	<u>26,958,442</u>
Restricted assets:					
Cash and short-term investments	49,519,035	21,196,301	42,723,675	27,761,094	87,887,974
Accrued interest receivable	161,880	150,634	235,693	155,489	251,374
Total restricted current assets	<u>49,680,915</u>	<u>21,346,935</u>	<u>42,959,368</u>	<u>27,916,583</u>	<u>88,139,348</u>
Special assessments receivable	2,288	2,288	2,288	2,288	27
Capital assets, depreciable, net	463,474,087	501,279,719	510,123,176	515,338,214	510,819,170
Capital assets, nondepreciable	57,550,522	51,132,677	65,280,259	83,645,896	98,458,458
Debt issuance costs, net	2,987,661	2,765,587	2,738,939	2,501,083	2,832,618
Total assets	<u><u>\$596,676,870</u></u>	<u><u>\$600,004,237</u></u>	<u><u>\$646,721,101</u></u>	<u><u>\$654,788,550</u></u>	<u><u>\$727,208,063</u></u>
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$6,078,155	\$3,350,146	\$4,345,532	\$3,626,994	\$2,975,514
Compensated absences	1,317,984	1,404,974	82,833	80,338	457,762
Accrued payroll and related expenses	565,128	611,325	688,279	996,472	1,390,160
Contracts and retainage payable	108,390	84,497	79,118	114,385	74,244
Short term portion of Claims Liability					843,957
Other liabilities	1,058,310	775,446	744,911	544,911	567,369
Due to other funds	3,214,007	3,800,610	903,693	1,464,144	136,792
	<u>12,341,974</u>	<u>10,026,998</u>	<u>6,844,366</u>	<u>6,827,244</u>	<u>6,445,797</u>
Liabilities payable from restricted assets:					
Accrued interest and fiscal agent fees	2,640,334	2,504,872	2,365,411	2,822,665	2,900,266
Current portion of revenue bonds payable	10,613,433	9,244,989	9,491,124	10,805,000	11,155,000
Contracts and retainage payable	2,130,625	1,035,374	677,088	872,283	223,965
Total liabilities payable from restricted assets	<u>15,384,392</u>	<u>12,785,235</u>	<u>12,533,623</u>	<u>14,499,948</u>	<u>14,279,230</u>
Total current liabilities	<u>27,726,366</u>	<u>22,812,233</u>	<u>19,377,989</u>	<u>21,327,192</u>	<u>20,725,028</u>
Compensated absences			1,461,686	1,476,698	1,437,438
Claims liability				2,257,989	2,648,246
Due to other funds			1,981,154		
Postretirement liability				702,275	1,701,104
Pension liability		1,029,955	1,075,780	672,134	629,967
Revenue bonds payable and notes payable	155,734,991	146,367,650	177,638,293	166,679,418	225,448,390
Total liabilities	<u>183,461,357</u>	<u>170,209,838</u>	<u>201,534,902</u>	<u>193,115,706</u>	<u>252,590,173</u>
Net assets:					
Invested in capital assets, net of related debt	398,002,765	413,527,890	426,727,275	443,698,034	453,854,996
Restricted	6,947,036	6,349,015	4,202,551	4,524,375	6,666,977
Unrestricted	8,265,712	9,917,494	14,256,373	13,450,435	14,095,918
Total net assets	<u>413,215,513</u>	<u>429,794,399</u>	<u>445,186,199</u>	<u>461,672,844</u>	<u>474,617,891</u>
Total liabilities and net assets	<u><u>\$596,676,870</u></u>	<u><u>\$600,004,237</u></u>	<u><u>\$646,721,101</u></u>	<u><u>\$654,788,550</u></u>	<u><u>\$727,208,064</u></u>

*FY07 includes restatements for change in depreciation method on equipment from composite to straight-line. Cumulative effect \$502,109.
Source: City Sewer Fund audit and the Water Services Department.*

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND – WASTEWATER ONLY**

**Statements of Revenues, Expenses and Changes in Fund Net Assets
Audited for Fiscal Years Ending April 30, 2005-2009**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Operating revenues:					
Retail sewer charges	\$37,569,311	\$41,161,228	\$44,881,172	\$46,125,920	\$48,752,005
Intermunicipal sewer charges	15,177,604	15,476,630	15,900,917	18,722,855	21,098,061
Other operating revenue	<u>3,115,232</u>	<u>2,513,561</u>	<u>3,393,160</u>	<u>3,613,322</u>	<u>4,752,796</u>
Total operating revenues	<u>55,862,147</u>	<u>59,151,419</u>	<u>64,175,249</u>	<u>68,462,097</u>	<u>74,602,862</u>
Operating expenses:					
Sewerage treatment and pumping	14,992,441	16,059,456	16,108,999	17,931,832	18,968,715
Sewer maintenance	9,632,604	11,663,977	11,676,834	13,419,209	16,489,430
Administrative and general	8,140,924	9,567,874	10,607,211	13,193,053	14,509,502
Industrial and household hazardous waste control	1,846,167	1,827,079	2,029,068	2,021,275	2,264,239
Depreciation and amortization	<u>12,132,649</u>	<u>12,696,669</u>	<u>13,276,370</u>	<u>14,072,645</u>	<u>14,008,556</u>
Total operating expenses	<u>46,744,785</u>	<u>51,815,055</u>	<u>53,698,482</u>	<u>60,638,014</u>	<u>66,240,442</u>
Operating income	<u>9,117,362</u>	<u>7,336,364</u>	<u>10,476,767</u>	<u>7,824,083</u>	<u>8,362,420</u>
Nonoperating revenues (expenses):					
Interest on investments	941,394	2,288,165	1,849,669	2,779,229	1,418,735
Grant revenue					
Interest expense and fiscal agent fees	(3,918,045)	(3,881,675)	(4,241,743)	(4,847,657)	(4,499,980)
Gain (loss) on disposal of fixed assets	<u>18,674</u>	<u>16,793</u>	<u>60,277</u>	<u>(18,389)</u>	<u>109,101</u>
Total nonoperating revenues (expenses)	<u>(2,957,977)</u>	<u>(1,576,717)</u>	<u>(2,331,797)</u>	<u>(2,086,817)</u>	<u>(2,972,144)</u>
Net income before capital contributions	6,159,385	5,759,647	8,144,970	5,737,266	5,390,276
Capital contributions	<u>5,709,985</u>	<u>10,881,094</u>	<u>6,744,721</u>	<u>10,749,379</u>	<u>7,554,768</u>
Change in net assets	<u>\$11,869,370</u>	<u>\$16,640,741</u>	<u>\$14,889,691</u>	<u>\$16,486,645</u>	<u>\$12,945,044</u>

Source: City Sewer Fund audit and the Water Services Department.

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City of Kansas City, Missouri
Debt Service Coverage - Sanitary Sewer System
For Fiscal Years Ending April 30, 2005 through April 30, 2009

	2005	2006	2007	2008	2009
Revenues:					
Sewer charges	\$ 52,746,915	\$ 56,637,858	\$ 60,782,089	\$ 64,848,775	\$ 69,850,066
Other operating income	3,115,232	2,513,561	3,393,160	3,613,322	4,752,796
Interest income	941,394	2,288,165	1,849,669	2,779,229	1,418,735
Total Revenues	\$ 56,803,541	\$ 61,439,584	\$ 66,024,918	\$ 71,241,326	\$ 76,021,598
Less Expenses:					
Sewerage Treatment and Pumping	\$ 14,992,441	\$ 16,059,456	\$ 16,108,999	\$ 17,931,832	\$ 18,968,715
Sewer Maintenance	9,632,604	11,663,977	11,676,834	13,419,209	16,489,430
Administration & General	8,140,924	9,567,874	10,607,211	13,193,053	14,509,502
Industrial and Household Hazardous Waste Control	1,846,167	1,827,080	2,029,068	2,021,275	2,264,239
Other	-	-	-	-	-
Total Expenses*	\$ 34,612,136	\$ 39,118,387	\$ 40,422,112	\$ 46,565,369	\$ 52,231,886
Net Revenues Available for Debt Service	\$ 22,191,405	\$ 22,321,197	\$ 25,602,806	\$ 24,675,957	\$ 23,789,712
Gross Current Year Debt Service	\$ 16,635,366	\$18,573,698	\$16,750,181	\$17,891,805	\$19,276,085
Coverage of Gross Debt Service(Times)	1.33	1.20	1.53	1.38	1.23
Less SRF Subsidy	3,162,991	3,266,043	3,458,471	3,380,966	3,241,774
Net Current Year Debt Service	\$ 13,472,375	\$ 15,307,655	\$ 13,291,710	\$ 14,510,839	\$ 16,034,311
Coverage of Net Debt Service(Times)**	1.65	1.46	1.93	1.70	1.48

*Does not include depreciation, interest expense and fiscal agents fees.

**Per the City's Ordinance, interest earnings on the reserve accounts related to SRF loans reduce the debt service requirement for the purposes of calculating annual debt service coverage.

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